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FISCAL IMPACT STATEMENT

LS 6600 | **NOTE PREPARED:** Jan 12, 2004
BILL NUMBER: HB 1002 | **BILL AMENDED:** Jan 12, 2004

SUBJECT: Standard Homestead Deduction.

FIRST AUTHOR: Rep. Bauer | **BILL STATUS:** CR Adopted - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

STATE IMPACT	FY 2004	FY 2005	FY 2006
State Revenues	(130,000)	(205,000)	(90,000)
State Expenditures	(32,500,000)	(68,900,000)	(9,000,000)
Net Increase (Decrease)	32,370,000	68,695,000	8,910,000

LOCAL IMPACT	CY 2004	CY 2005	CY 2006
Local Revenues	(277,000,000)		
Local Expenditures			
Net Increase (Decrease)	(277,000,000)		

Summary of Legislation: (Amended) This bill applies the provisions related to the assessment of rental property for assessment dates after February 29, 2004, and property taxes first due and payable in 2005 and thereafter.

The bill also increases the maximum homestead standard deduction amount for two years. The bill increases the minimum standard homestead deduction from 50% of the assessed value of the homestead to 55% of the assessed value of the homestead.

Effective Date: Upon passage.

Explanation of State Expenditures: (Revised) This bill would reduce state expenditures for Property Tax Replacement Credit (PTRC) and Homestead Credits by an estimated **$32.5 M in FY 2004, $68.9 M in FY 2005, $9.0 M in FY 2006, and $2.3 M each year thereafter.** These amounts are composed of the following.

The increased deduction in this proposal would cause a reduction in homesteaders' property tax bills which would result in a savings of homestead credit expenditures. The savings are estimated at $7.9 M in FY 2004, $19.1 M in FY 2005, $7.3 M in FY 2006, and $1.9 M in all other years.

The increased deduction would cause a reduction in collected property taxes in CY 2004 and would also cause part of homeowners' tax burdens to be shifted to business personal property beginning in CY 2005. The state pays the 60% school general fund PTRC on all property, however, business personal property does not qualify for the regular 20% PTRC. The state's expense for all PTRC in CY 2004 and the 20% regular PTRC beginning in CY 2005 would be reduced by an estimated $24.6 M in FY 2004, $49.8 M in FY 2005, $1.7 M in FY 2006, and $450,000 in all other years.

PTRC and Homestead Credits are paid from the Property Tax Replacement Fund (PTRF), which is annually supplemented by the state General Fund. Any savings of expenditures for these credits would ultimately benefit the state General Fund.

Explanation of State Revenues: (Revised) The AV reduction resulting from the change to the standard homestead deduction would cause a reduction in revenue for the State Fair and State Forestry Funds. **The reduction is estimated at about $130,000 in FY 2004, $205,000 in FY 2005, and $90,000 in FY 2006, and $30,000 in all other years.**

Explanation of Local Expenditures: There are 10 counties that currently provide a locally funded homestead credit. These counties include Allen, Madison, Marion, Miami, Monroe, Perry, St. Joseph, Spencer, Tippecanoe, and Vanderburgh. The additional amount of standard deductions in this bill will reduce homesteaders' property tax bills which would result in a small savings of locally provided homestead credit expenditures.

Local homestead credit is paid for with County Option Income Tax (COIT) proceeds. The amount of COIT revenue available for distribution to local civil taxing units is reduced by the amount spent for local homestead credits. Any local homestead credit savings would, therefore, increase distributions to the civil taxing units in these counties.

Explanation of Local Revenues: (Revised) Under current law, each homestead may receive a deduction from assessed value in the amount of $35,000 or ½ of the gross assessed value (AV), whichever is less. This proposal would raise the $35,000 deduction to $44,000 in CY 2004 and $39,500 in CY 2005. The deduction amount would return to $35,000 for taxes paid in 2006. However, the deduction would be limited to 55% instead of 50% of AV in all years, beginning with taxes paid in CY 2004.

Based on parcel data received from a small number of counties, the current $35,000 deduction is expected to total about $49.9 B in AV, statewide. This proposal would increase the deductions by an estimated $10.8 B in CY 2004, $6.2 B in CY 2005, and $1.2 B in all other years.

In CY 2004, the increased deductions will create a revenue loss for local units of government. IC 6-1.1-17-16 directs the DLGF to certify property tax rates, levies, and budgets by no later than February 15th each year. If the effective date of this bill occurs after February 15, 2004, it would be too late to recalculate 2004 tax rates based on the additional deduction in Pay 2004. This would cause a revenue loss for local civil units and school corporations in CY 2004. Assuming all counties' 2004 tax rates are set by the statutory date, the statewide revenue loss is estimated to be about $277 M in CY 2004 only. School corporations may appeal for a shortfall levy in their general and transportation operating funds under IC 6-1.1-19-4.7. Civil units may not appeal for a shortfall levy for this purpose.

In CY 2005 and later, this proposal would cause a shift of part of the property tax burden from homeowners to all property owners in the form of a higher tax rate. A portion of the shift, as much as 30%, would fall back onto homesteaders as they too would pay the higher tax rate. **The net tax shift from these additional deductions is estimated at about $123 M in CY 2005 and $24 M per year thereafter.** Beginning in CY 2005, total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

Three Appraisal Methodologies for Rental Properties: Under current law, as amended by SEA 1 - 2004, beginning with taxes paid in 2006, real property that is regularly rented and has more than four units must be assessed at the lowest valuation that results from the use of three methodologies: cost approach, sales comparison, and income capitalization. Also beginning with taxes paid in 2006, the preferred valuation method for rental properties with up to four units and rented mobile homes is the gross rent multiplier method.

This bill would move the effective date of these provisions so that they first apply to taxes paid in 2005. This provision would result in a change in the assessed value tax base one year earlier than under current law which would cause a shift of the property tax burden from the taxpayers receiving reduced assessed values to all taxpayers in the form of an increased tax rate one year earlier. Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the reduced assessed value amount applicable to that fund.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: County and township assessors; County auditors.

Information Sources: County property tax parcel record data; Local Government Database.

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